Kāinga Ora
Reset Plan v1.0

20 November 2024

Kāinga Ora
Homes and Communities

Reset Plan – Introduction

- This Reset Plan for Kāinga Ora has been prepared as a direct response to the June 2024 Letter of Expectations (LOE) from the Ministers of Housing and Finance. It sets out how we intend to meet both the financial commitments from Budget 2024 and the expectations set in the LOE.
- This document represents a short summary of the Reset Plan initiatives and financial outputs but does not include all the analysis completed as part of the plan preparation.
- The Reset Plan was developed using an internal team from within Kāinga Ora management with close oversight by the Board. Throughout the development of the plan the team has incorporated regular feedback from the Ministry of Housing and Urban Development (HUD), Treasury and Department of Prime Minister and Cabinet, however the plan reflects the Kāinga Ora Board's own perspective on what is required to reset the organisation and deliver on the LOE. The appendix provides a summary of how this plan and other Kāinga Ora actions meet the specific LOE requirements.
- The plan is anchored by the direction for Kāinga Ora to refocus on its core role as a good social landlord, significantly improve operating performance and deliver the Budget 2024 savings commitments. Consequently, the plan is more a reset than a fundamental change to Kāinga Ora's role or function. The plan also recognises that Kāinga Ora relies upon and works alongside many other parts of government in the support of vulnerable New Zealanders and will always need to work closely with others to improve social housing outcomes.
- The Board intends that the Reset Plan will be used both as a tool to drive change and performance within Kāinga Ora but also to seek Ministers' guidance on key decisions that affect Kāinga Ora's operations and objectives. To that end the plan is a mix of more detailed, internally focused initiatives and more significant issues/decisions that require Minister/Cabinet decisions.
- Lastly, the Board believes that the combination of the recommended initiatives presents the best chance for Kāinga Ora to meet Ministers' expectations and so recommends that the plan be seen as a complete product rather than as a menu of options.

Some important findings informed the final recommendations of the Reset Plan

Issue	How this affected Kāinga Ora
Complex obligations made core job hard and Kāinga Ora's response compounded problem	• Complex and changing scope led to operational inefficiencies, complex governance and decision-making, and increased overheads – weakening the organisation's focus on its social housing landlord role • Broad mandate has meant the public and other stakeholders don't clearly understand the organisation's role – creating expectations mis-matched to reality
Rapid growth in building, urban development and related activities	• Significant increase in debt, funding and overhead costs required to deliver • Multiplicity of objectives compromised clarity and clear prioritisation • Rapid scaling led to inefficiency
Attempts to drive housing sector innovation or urban development led to sub-optimal build decisions	• At times, wrong product delivered in wrong location • Distracted from core 'building' task of driving out construction and maintenance costs
Housing direction and Kāinga Ora's specification was too inflexible	• Limited the ability to access market stock and reduce construction costs • Lack of flexibility in housing volumes required, location or specification was at times exploited in bid pricing for build projects
Insufficient focus on fiscal discipline	• Kāinga Ora's cost to build was higher than market • Increase in debt, worse value for money outcomes • Significant increases in operating and overhead expenditure
Tenant needs are changing over time with greater breadth in needs (from standard to high/complex needs)	• Current model and operational approach restricts the organisation's ability to adequately tailor housing and support services to a changing tenant base (see appendix for further detail on tenant interactions)
Widespread loss of community support across NZ	• Direction on tenant management practices and rapid growth in building activity led to deterioration in community support

To guide the development of the Reset Plan and the longer term investment scenarios the Board applied the following problem statement (using the LOE to set key parameters)

Reset Plan project problem statement

To develop a plan for Kāinga Ora as NZ's largest social housing landlord which ensures it supports the supply around 78,000* warm, dry homes that meet society's needs at a local level and have an average asset life of around 35** years. In meeting this objective Kāinga Ora's revenues will match revenue to cash costs by FY28, support a debt position not exceeding $22.9bn and establish delivery partnerships where they can enable lower costs or improved tenant outcomes.***

** Projected to be around 78,000 homes by 30 June 2026. This includes approximately 73,000 Kāinga Ora social houses plus around 5,000 properties made up of 1,489 Community Group Housing places, 968 Community Housing Providers lease portfolio, 2,464 Transitional Housing and 76 private houses.*

*** Having a declared average asset target age combined with flexibility on minimum age/hold and locations may increase asset portfolio options for growth and management*

**** Based on free cash flows (defined as net operating cashflow)*

Our proposed Reset Plan delivers against the problem statement by focusing on five inter-related themes

Reset Plan on a page

1. **Kāinga Ora refocused on its core mission:** Refocus on core business as social housing portfolio manager for government-owned social housing. Over time, offload any unfunded or non-core mandates around 9(2)(f)(iv) [redacted], industry innovation, affordable housing and anything else not servicing core social landlord function. Work with HUD* and gain Ministerial support for a narrower set of social housing portfolio outcomes and seek support for legislative/other changes to match new scope.
2. **Improved organisational performance with a focus on cost effectiveness:** Deliver on FY25 cost-out targets and adopt best practice approach to further drive down costs throughout all lines of business and extend approach to identify further savings for FY26 and beyond. Deliver specific savings identified in asset maintenance/management programmes and apply external assurance oversight. Via an internal transformation programme, reset organisational model and culture/capability to focus on building stronger performance management and cost disciplines.
3. **Improved tenant and community management:** Adopt a tenant segmentation approach to develop a more sophisticated tenant product/service model, improved portfolio efficiency (e.g. better matching of tenants to housing stock) and lower average costs to serve. Use modern digital tools to improve tenant support/service efficiency and target market cost benchmarks for Kāinga Ora 'standard' tenants. Work with others (MSD*/HUD) over next year to develop new more sophisticated tenant demand and segmentation models to guide future product (housing and service) development and test new models as a path to maturing the 'active purchasing' approach including partnering models for CHPs*. Review tenant placement and management policies/agreements and work with HUD on other models to manage disruptive tenants, rental arrears and build community support for Kāinga Ora.
4. **Improved housing portfolio and build management:** Within targets agreed with HUD, give Kāinga Ora more freedom to optimise the management of the housing portfolio as it develops, renews or recycles assets. Where justified, continue to rationalise any sub-scale locations (considering local CHP alternatives) or higher value assets around NZ. With MSD, introduce an annual tenant housing needs review and manage results to ensure portfolio efficiency – establish and work towards a targeted annual drop in housing capacity mis-match. Commit to delivering renewals/new stock at fully allocated costs that are in line with or better than market rates** using the best available channel of delivery and introduce new processes/gates to ensure compliance. Remove density and other unneeded building/urban requirements and adopt a simpler set of housing specification requirements that are applied consistently and deliver sound tenant and financial outcomes over the useful life of the home. Proceed with the planned introduction of high performance management processes (and the supporting restructure) for the current pipeline of build projects to drive down cost of new stock.
5. **More persistent and sustainable approach to funding and associated settings:** 9(2)(f)(iv) [redacted] Support HUD on its IRRS/OS/AS* revenue model review to ensure it addresses current social housing revenue issues and supports improved portfolio efficiency over time. Gain support to enable a persistent model of operations:
   - Get broad support for sufficient new/renewed houses to enable Kāinga Ora's pre-1986 housing stock to be renewed/refreshed over next 30 years and to gradually adjust housing typology to meet changing tenant needs (eg shift to more 1 beds). Lower average house asset age to ~37 years within 30 years;
   - 9(2)(f)(iv) [redacted]
   - Use all available cost and revenue levers to return to operating surplus as early as possible with a focus on sustaining cash surpluses by FY28 as an initial milestone.

***Definitions:** *'HUD' means Ministry of Housing and Urban Development; 'MSD' means Ministry of Social Development; 'CHP' means community housing providers; 'CGH' means community group housing; 'IRRS' means income related rent subsidy; 'OS' means operating supplement; 'AS' means accommodation supplement*

*** The term 'market rate/price' in this document means construction costs comparable with similar typology, size and quality private sector builds appropriately adjusted for some narrowly defined essential requirements specific to social housing (eg durability, child safety).*

Detailed initiatives supporting the Reset Plan (1/4)

	#	Initiative detail	Lead Agency	Internal Lead	By When (Indicative)
1 Kāinga Ora refocused on its core mission	1.1	• To deliver on Kāinga Ora's agreed scope, strategies and targeted outcomes of the Reset Plan and to ensure excellent outcomes for tenants: • Develop and then work with HUD to obtain Ministerial approval of new Statement of Intent (SOI) /Statement of Performance Expectations (SPE) • Establish revised format for quarterly reporting which tightly aligns to Reset Plan	KO	GM – SFP	June 25 (SPE) Dec 25 (SOI)
	1.2	• Subject to Ministerial decisions, work with HUD on any legislative and policy changes that sit with other agencies to initiate that will both enable key aspects of the Reset Plan and Kāinga Ora's desired organisational focus	HUD	GM – SFP	TBC by HUD, but likely 12-24 months
	1.3	• Reset internal standards/processes to reflect new obligations and complete the shut-down or transfer of any non-core activities to align with the Reset Plan and any consequent policy and legislative changes	KO	CEO	Subject to other changes
2 Improved organisational performance with a focus on cost effectiveness	2.1	• Deliver on asset management and maintenance savings commitments and mitigate risks raised in the external assurance review to ensure budgeted savings are delivered	KO	GM – NS	Full run rate by June 2025
	2.2	• Deliver on new pan-business operational cost savings programme (eg fleet, procurement, people, facilities) to ensure committed budgeted savings are delivered and further overhead cost efficiencies for FY26 and beyond are clearly identified	KO	CEO	Underway
	2.3	• Conduct a review of our technology estate and digital capabilities to (over time) establish more efficient platforms for operating the business and a much higher level of digital engagement and self-service for tenants	KO	GM PGC	June 2025
	2.4	• Implement best practice transformation management and reset the organisational model. Improve organisational health, culture and capabilities with a focus on enhanced accountability, decision making, performance and people management practices	KO	CEO	June 2025
	2.5	• Develop and implement a more effective and efficient platform for communicating with the public and the media to ensure we retain our social licence to operate within communities	KO	GM – NS	From Nov 2024
	2.6	• Align Te Kurutao unit to new government direction and reduced appropriation funding and focus on supporting execution of Reset Plan, strengthening iwi partnerships and the development of Initiative 3.8. 9(2)(f)(iv) [redacted] and engage with HUD on at least two Māori focused social housing initiatives	KO	DCE - Māori	From Nov 2024
	2.7	• Apply the new treasury and liquidity management policies and engagement with monitors as highlighted in the LOE	KO	GM – SFP	Underway
	2.8	• Resolve and execute agreed actions regarding rent arrears	KO	GM – NS	Underway

Detailed initiatives supporting the Reset Plan (2/4)

3

Improved tenant and community management

#	Initiative detail	Lead Agency	Internal Lead	By When (Indicative)
3.1	• Complete the inflight post-implementation review of the 2021 Customer Programme and report to Board. Implement agreed recommendations	KO	GM – SFP (Strategy)	Feb 2025 (1st stage)
3.2	• Adopt a tenant segmentation approach to develop a more sophisticated tenant product/service model and improved portfolio efficiency (e.g. better matching of tenants to housing stock). Target lower costs to serve and benchmark to private market (particularly for lower complexity tenants)	KO	GM – NS Services (Implementation)	June 2025
3.3	• Deliver on LOE commitments to manage disruptive tenant behavior. Continue to monitor new tenancy management framework and community engagement effectiveness	KO	GM – NS	Underway
3.4	• To support initiative 3.2 and improved tenant management work with MSD to better integrate its data with Kāinga Ora operations. Improve Kāinga Ora's own approach to tenant data management	MSD	GM – NS	TBC with MSD, (~12-18 months)
3.5	• Develop recommendations with HUD and MSD for adjusting government policy settings that provide Kāinga Ora more decision rights around the acceptance, placement and management of very high needs or disruptive tenants (including for the benefit of neighbouring communities). Refresh the Services Agreement and identify legislative changes as appropriate	KO	GM – SFP	TBC with HUD
3.6	• Work with MSD to investigate the introduction of an annual tenant needs assessment to ensure that tenant housing/service needs are better matched and that Kāinga Ora's housing portfolio evolves to meet changing requirements	MSD	GM – NS	Late 2025 (MSD dependent)
3.7	• Work with HUD as the 'active purchaser' (alongside MSD) to develop a more sophisticated demand and tenant segmentation model for social housing support to enable improved planning and service provision including paths to partner or place tenants with other housing providers (where appropriate) to support Initiative 3.2 and to leverage Initiative 3.4	HUD	GM – SFP	HUD/MSD dependent
3.8	• Support HUD in the development of a framework that enables a transition of selected Kāinga Ora tenants/homes/services to other housing providers (including iwi or Māori led organisations) where mutually beneficial	KO	GM – SFP	TBC with HUD

Detailed initiatives supporting the Reset Plan (3/4)

4

Improved housing portfolio and build management

#	Initiative detail	Lead Agency	Internal Lead	By When (Indicative)
4.1	• Revise the Kāinga Ora Asset Management Strategy (AMS) in line with Reset Plan as the guide for long term housing portfolio management (including asset recycling)	KO	GM – SFP	Jun 2025 (Kāinga Ora Board endorsement)
4.2	• Revise Investment Management Framework (IMF) to reflect focus on management and renewal of existing portfolio and set new financial metrics based on new settings	KO	GM – SFP	Dec 2024
4.3	• Confirm proposed asset recycling approach* with Ministers with a focus on addressing poor condition, high value and remote assets.	KO	GM – SFP	March 2025
4.4	• Complete the review of current land holdings and paused projects with a view to selling surplus land that no longer meets Reset Plan objectives and use funds to reduce debt	KO	GM – UDD	March 2025
4.5	• Commit to delivering renewals/new stock at fully allocated costs that are in line with or better than market rates** using the best available channel of delivery and introduce new processes/gates to ensure compliance	KO	GM – HDG	Now
4.6	• Complete the review of standard designs and specifications to ensure they deliver sound tenant and financial outcomes over the useful life of the home. Consult with HUD to consider proposed changes against HUD's Public Housing Design Guidance	KO	GM – HDG / SFP	Feb 2025
4.7	• Establish an updated and rigorous approach to market price** benchmarking that includes sufficient localised information to ensure Kāinga Ora is well informed on best value growth channel. Gain support from HUD and Treasury on approach.	KO	GM – SFP	From Dec 2024
4.8	• Proceed with the planned introduction of systemised management processes (and the supporting restructure) for the current pipeline of build projects to drive down cost of new stock. Review performance before moving to the next phase of change in the commissioning models.	KO	CEO	June 2025

** This involves the sale of around 900 homes per year, with the proceeds being reinvested to deliver at least the same number of new fit-for-purpose replacement homes.*

*** 'market rate/price' means construction costs comparable with similar typology, size and quality private sector builds appropriately adjusted for some narrowly defined essential requirements specific to social housing (eg durability, child safety).*

Detailed initiatives supporting the Reset Plan (4/4)

5

More persistent and sustainable approach to funding and associated settings

#	Initiative detail	Lead Agency	Internal Lead	By When (Indicative)
9(2)(f)(iv) [redacted]				
5.2	• Contribute to HUD's work on social housing funding models with a view to better matching funding to costs and facilitating positive paths for tenants to move through social housing to private market (as their circumstances improve)	HUD	GM – SFP	Ongoing
9(2)(f)(iv) [redacted]				
5.7	• Use all available cost and revenue levers to return to operating surplus as early as possible with a focus on sustaining cash surpluses by FY28 as an initial milestone	HUD	GM – SFP	Ongoing
9(2)(f)(iv) [redacted]				

** Note: See Scenario 2 – Dynamic in this presentation for further details on the preferred investment scenario referred to in initiative 5.5*

At the centre of the Reset Plan is the directive to refocus Kāinga Ora on its core function as a social housing landlord. The Board has formed a view on what should be considered 'core' activities

Core vs non-core activities

- Based on the guidance in the LOE and the clear need for financial restraint, the Board has conducted a review of Kāinga Ora's activities.

- In its review the Board has drawn a distinction between what it considers to be a 'core' function for Kāinga Ora to discharge its obligations as a social housing landlord serving its tenants and other activities which it considers could be described as 'non-core'. Some of the non-core activities are required by legislation or the Statement of Performance Expectations while others are Kāinga Ora's interpretation of what is required to meet objectives described in the Government Policy Statement on Housing and Urban Development (GPS-HUD). We have categorised most of the non-core activities as 'discretionary', meaning that they are only required by accountability documents (eg SPE, SOI, or GPS-HUD) and could be stopped for FY26 with the amendment of those accountability documents.

- Simplifying Kāinga Ora's accountabilities to core activities would make a significant difference to operations through clearer organisational focus and cost efficiency. To that end, the Board would like to propose that accountabilities attached to non-core activities are either revised or those obligations/activities transferred to another part of government. At the same time, Kāinga Ora proposes to stop internal non-core requirements where it already has discretion to do so (following consultation with HUD).

- The Board would also propose that if any discretionary non-core activities do remain with Kāinga Ora that it may choose to halt any of those activities that are unfunded/not cost-neutral and don't clearly support Kāinga Ora's core activities. The Board would also welcome further discussion on those core functions it has identified as only having partial funding.

- With this refocus, the Board will continue to place a high priority on Māori interests and stakeholders given Māori represent a disproportionate share of our tenants. Iwi and other Māori entities are valued partners both in land and housing development and in the provision of tenant support services.

- The Board will continue to monitor Kāinga Ora's operations to avoid discretionary activity creep.

In meeting Kāinga Ora's narrower focus on its core role as a social housing landlord we recommend the following as the 'core' activities

Core activities

	Core activity	Definition	Currently funded?	Recommended action
Tenants	Basic tenancy management	Responsibilities as landlord under the Residential Tenancies Act / tenancy agreements and Services Agreement with HUD	Funded	**Retain as core**
	Wellbeing support for those tenants with higher, more complex needs	Support for higher tenant needs at or above levels specified in Services Agreement with HUD, e.g. managing disruptive behaviour, connecting people to services	Not specifically funded by market rent	**Retain as core. Include in HUD funding review**
Maintenance / Asset Management	Asset management and maintenance	Property maintenance in accordance with Residential Tenancies Act, Healthy Homes Standards and Services Agreement with HUD	Funded	**Retain as core**
	Renewal of stock (including recycling assets)	Management of land portfolio to ensure it remains fit-for-purpose and preserves and optimises value	Funded	**Retain as core**
	Asset modifications for specific customer groups/needs	Modifications to existing homes to accommodate specific needs (eg fully accessible homes)	Not funded by market rents but partially funded by others eg ACC	**Retain as core. Include in HUD funding review**
Building	Buying/ selling/ leasing of land and homes	For the purposes of the provision of public/social housing (including through Community Group Housing)	Funded	**Retain as core**
	Commissioning of builds for social housing	Renewing and delivering new housing assets through both Kāinga Ora and developer led programmes	Funded	**Retain as core**
	Additional standards that respond to characteristics of Kāinga Ora tenants or other directions	Standards that address specific tenant needs (eg child safety), whole-of-life cost considerations or respond to other specific issues (eg coronial inquiry recommendations)	Not funded	**Retain as core. Include in HUD funding review**
	Delivery of homes for cohorts with specific needs	Range of accommodation types for specific cohorts where tenancy and support services are separately provided by specialist provider, e.g. Community Group Housing	Partly funded through legacy CGH settings	**Retain as core. Plan recommends funding resolution**
	Consentium (on Kāinga Ora builds/land)	Being a building consenting authority (BCA) for Kāinga Ora	Funded	**Retain as core**
Urban Development	Large Scale Projects (LSPs) on Kāinga Ora land	LSPs on Kāinga Ora land that are within current approved programme ($1.867b HAF** funding) plus any future LSPs (if approved)	Funded (cash basis)	**Retain as core for approved projects on KO land**

** **Note:** Kāinga Ora is currently mandated to perform some of these non-core functions and activities under existing legislative and policy settings, ie Government policy decisions and/or legislative change would be required along with change to accountability documents (SOI and SPE). ****Definition**: 'HAF' means Housing Acceleration Fund*

We propose the following be considered ‘non-core’ activities. We also propose Kāinga Ora has discretion to continue some activities if deemed necessary to discharge agreed core activities or if cost neutral – but activities can be stopped where funding is inadequate (1/2)

Non-core (1/2)

	Non-core activity	Definition	Changes required to scale back or stop	Org Benefits / $ Impact	Funding?	Discretionary^	Recommended action
Building	**Relocatable home partnerships***	Sub-economic relocation of homes from redevelopment sites (primarily to whenua Māori) as an alternative to demolition	Amend SPE target 2.7	Nil $ impact (cost neutral compared to demolitions)	Partially funded	Yes	**Remove formal requirement**
	Trade academies	Trades development programmes for schools and Dept of Corrections whereby homes are commissioned as part of Kāinga Ora offsite manufacturing programme	Amend SPE target 2.6	Low impact but does remove complexity	Partially funded	Yes	**Remove formal requirement – but preference to continue where justified**
	Driving building sector innovation	Seeding and funding innovative approaches to reduce build costs and improve quality / sustainability for industry benefit	None to scale back, GPS-HUD amended to stop	Low impact primarily removes complexity	Not funded	Yes	**Remove formal requirement**
	Building sector capability with third parties	Sharing health & safety or building design guides and/or providing professional development support incl for CHPs with limited capital and iwi groups	Amend SPE target 2.6	Low impact primarily removes complexity	Not funded	Yes	**Remove formal requirement**
	Partnerships with third parties for social housing	Kāinga Ora building social housing on third party land (which is generally complex & costly to set up with implications for tenant placement)	Amend SOI	Low impact primarily removes complexity	Partially funded	Yes	**Remove formal requirement**
	Tamaki Regeneration – construction programme	House construction for Tamaki Regeneration Company under the Umbrella Agreement through use of Kāinga Ora resourcing and financing (balance sheet leverage)	Amend SPE target 3.8, LOE and Umbrella Agreement	Low impact as cost mostly recovered	Partially funded	No (Contract requirement)	**Transfer**

Note: *Kāinga Ora is currently mandated to perform some of these non-core functions and activities under existing legislative and policy settings, ie Government policy decisions and/or legislative change would be required along with change to accountability documents (SOI and SPE)*

** Responsibly disposing of surplus houses should be considered as part of core activities*

^Discretionary activity describes activity required only by accountability documents (eg SPE, SOI, or GPS-HUD) and could be stopped for FY26 with the amendment of those accountability documents

We propose the following be considered 'non-core' activities. We also propose Kāinga Ora has discretion to continue some activities if deemed necessary to discharge agreed core activities or if cost neutral – but activities can be stopped where funding is inadequate (2/2)

Non-core (2/2)

	Non-core activity	Definition	Changes required to scale back or stop	Benefits /$ Impact	Funding?	Discretionary^	Recommended action
9(2)(f)(iv) [redacted]							
Other	**Agent of the Crown under the Housing Act**	Kāinga Ora management of land under the Housing Agency Account for the Crown, including resolving historical Public Works Act issues	Minister activate powers under Housing Act	Staff salaries – cost transferred to agencies/dept picking up work	Partially funded	No* (could change with direction)	**Transfer**
	Agent of the Crown – financial products	Kāinga Ora management of products as agent of the Crown, e.g. First Home Loan & Kāinga Whenua Loan, First Home Partner, KiwiSaver withdrawals, Kiwibuild, legacy grants	Cabinet or Ministerial decision	Indirect expenses – cost transferred to agencies/dept picking up work	Funded (appropriation)	No* (could change with direction)	**Remove formal requirement/ transfer**
	Consentium – non-Kāinga Ora builds	Not a current activity. Government is considering a new approach to building consents	N/A	None	Not funded	Yes	**Don't pursue**

** **Note:** Kāinga Ora is currently mandated to perform some of these non-core functions and activities under existing legislative settings, ie Government policy decisions and/or legislative change would be required along with change to accountability documents (SOI and SPE). ****Definitions**: 'UDA' means Urban Development Act, 'KOHCA' means Kāinga Ora–Homes and Communities Act*

^Discretionary activity describes activity required only by accountability documents (eg SPE, SOI, or GPS-HUD) and could be stopped for FY26 with the amendment of those accountability documents

9(2)(h)

[redacted]

In response to the LOE, Kāinga Ora has modelled a series of long term scenarios to help inform Ministers' choices about investment options. The modelling incorporates Ministers' recent decisions and directives and Kāinga Ora's own cost-out projects. The Board preference is for Scenario 2

- **Five scenarios were originally modelled however three scenarios have been proposed for consideration**
- **Appendix includes additional scenario outputs and alternatives**
- **Further scenarios can be modelled as required**

Base assumptions for financial modelling

All scenarios include final FY24 audited results as well as standard economic and operating assumptions as outlined in the appendix.

The following assumptions also apply:

- $1.4b savings across four years (as per Budget 24)
- Latest Ministerial direction for LSPs
- Latest Ministerial direction for FY25 and FY26
- Sales values are based on estimated sales values by region (aligning with Half Year Economic Fiscal Update (HYEFU) inputs). Assumes that sales are of lower value stock than average Kāinga Ora stock
- Expiring leases are not renewed with new homes
- Renewal/new build costs at market rates per sqm
- Best value renewal/growth channels selected by location (redevelopment and/or acquire new)
- Retention of current tenancy model
- Neutral impact on LSPs and urban development functions (due to tagged funding) 9(2)(f)(iv) [redacted]
- FTE modelling aligned to announced organisational restructure
- 9(2)(f)(iv) [redacted]
- Updated LSP financials to smooth lumpy impairments from previous model in FY31 and FY36

Having modelled the alternatives we have focused on three primary scenarios ranging from a growth option to a maintenance-only alternative. Scenario 2 - Dynamic forms the basis of Kāinga Ora's HYEFU submission

Scenario descriptions

Scenario	Description	Build activity profile
• **Scenario 1 – Grow** ***Grow net housing stock over next 30 years to maintain share of NZ housing***	• Continue Budget 24 approved renewals/new (adjusted for LOE) for the first two years of Budget period, then grow stock to maintain Kāinga Ora's market share (c4%) of public houses as % of total NZ households for the next 30 years (to FY54). Then hold and renew only • **<u>Asset sales/rationalisation allowed</u>** to support dynamic portfolio management	• **2,000 renewals** per year for four years, stepping down to **1,300** renewals per year from FY31 • **2,400 growth** in total by June 26 (to deliver on remaining commitments), plus additional **500-700 new builds** per annum for growth from FY27.
• **Scenario 2 – Dynamic** ***Hold net housing stock flat but renew/recycle stock over 30 years***	• Continue Budget 24 approved renewals/new (adjusted for LOE) with current asset renewal backlog addressed over 30 yrs • **<u>Asset sales/rationalisation allowed</u>** to support dynamic portfolio management • Addresses current renewal backlog within $22.9bn debt envelope	• **2,000 renewals** per year for four years stepping down to **1,300** renewals per year from FY31 • **2,400 growth** in total by June 26 (to deliver on remaining commitments), then **zero** growth thereafter
• **Scenario 5 – Static** ***Hold net housing stock flat but only maintain (no renewals/asset recycling)***	• Continue Budget 24 approved renewals/new (adjusted for LOE) for the first two years of the Budget period, then no retrofit of existing stock or any renewals/new other than through LSPs • Maintenance only of existing stock leads to stock aging over time and growing costs • **<u>Asset sales/rationalisation is not allowed</u>** (other than through LSPs) leading to increasing mis-match of housing stock to changing tenant needs	• **2,000 renewals** per year for two years, stepping down to **no renewals** from FY27 other than fire and LSP replacements • **2,400 growth** in total by June 26 (to deliver on remaining commitments), then **zero** growth thereafter

Scenario 2 is recommended scenario

(basis of HYEFU submission)

Scenario 2 – Dynamic preferred as it balances improved financial outcomes, renewal pace that improves asset quality over time and enables better use of land and portfolio reconfiguration to better meet changing tenant needs

Scenario outputs

Scenario	Key outputs	Pros	Cons
• **Scenario 1 – Grow** ***Grow net housing stock over next 30 years to maintain share of NZ housing***	• **94,000 homes after 30 years** • **After 30 years, average asset age falls to 33 years** • Debt peaks at FY52, paid off entirely by FY75 • Sustained cash surpluses from FY27 • Net operating surpluses return from FY36 • EBITDA*/interest reaches target in FY32	• Kāinga Ora share of housing maintained (relative to population) • Renewal backlog addressed across 30 years • Housing typologies adjusted to tenant needs more quickly over time (compared to preferred scenario)	• Exceeds debt cap beyond FY27 • Additional Crown funding required to meet IRRS costs • Risks of crowding out build market • Organisation will need to grow to support larger portfolio (ie more tenancy managers etc)
• **Scenario 2 – Dynamic** ***Hold net housing stock flat but renew/recycle stock over 30 years***	• **78,000 homes after 30 years** • **After 30 years, average asset age falls to 37 years** • Debt peaks at FY37, paid off entirely by FY79 • Sustained cash surpluses from FY28 • Net operating surpluses return from FY36 • EBITDA/interest reaches target in FY31	• Stays within approved debt cap • 11,500 homes renewed by FY30 (clearing renewal backlog) and a further 28,500 pre 1986 homes renewed over the following 25 years • Housing typologies adjusted to tenant needs over time • More homes for NZ generally as homes are sold and replaced rather than demolished • Capacity to reintroduce a growth programme if required	• Kāinga Ora share of housing declines • Significant operating deficits continue for 7-10 years • Operating deficit sustained for longer relative to scenario 5
• **Scenario 5 – Static** ***Hold net housing stock flat but only maintain (no renewals/asset recycling)***	• **78,000 homes after 30 years** • **After 30 years, average asset age increases to 63 years** • Debt peaks at FY27, paid off entirely by FY61 • Sustained cash surpluses from FY27 • Net operating surpluses return from FY32 • EBITDA/interest reaches target in FY30	• Stays within approved debt cap • Deficit removed across a shorter timeframe (by FY32)	• Kāinga Ora share of housing declines • Older homes for longer, leading to higher running costs and possibly worse health outcomes • Homes mismatched to tenant needs • Underutilised land • No homes freed up for broader market • More difficult to reinstate a build programme in the future

Scenario 2 Dynamic is recommended scenario

* ***Definition:*** *'EBITDA' means earnings before interest, tax, depreciation and amortisation*

Preferred Scenario 2 – Dynamic: summary of detailed financial outputs

Summary table: Scenario 2 – Dynamic

Preferred scenario

	Scenario 2 - Dynamic A: Budget 24 renewal pace									
	FY20 Jun-20	FY24 Jun-24	FY25 1	FY26 2	FY27 3	FY28 4	FY29 5	FY34 +10y	FY44 +20y	FY54 +30y
Homes										
New homes	1,841	5,002	3,437	2,050	1,464	1,590	1,612	932	932	50
Demolitions	702	1,164	731	691	687	692	575	144	182	50
Sales	71	27	300	939	777	898	1,037	788	750	-
Net Lease	(81)	(206)	(151)	(275)	(75)	(75)	-	-	-	-
Net growth	**987**	**3,605**	**2,255**	**145**	**- 75**	**- 75**	**- 0**	**0**	**0**	**-**
Managed stock	**66,253**	**75,640**	**77,895**	**78,040**	**77,965**	**77,890**	**77,890**	**77,890**	**77,890**	**77,890**
Public Housing	63,811	70,643	72,875	73,020	72,945	72,870	72,870	72,870	72,870	72,870
Supported Housing	2,442	4,997	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020
Retrofit	**133**	**898**	**861**	**495**	**400**	**400**	**400**	**400**	**205**	**974**
Total construction events	**1,974**	**5,900**	**4,298**	**2,545**	**1,864**	**1,990**	**2,012**	**1,331**	**1,137**	**1,024**
Effective age of homes	**44**	**41**	**38**	**38**	**38**	**37**	**37**	**37**	**37**	**37**
FTE count	**1,989**	**3,651**	**3,448**	**2,904**	**2,904**	**2,904**	**2,891**	**2,751**	**2,556**	**2,547**
$ Million										
Revenue	1,592	2,373	2,557	2,799	2,952	2,939	3,010	3,216	4,291	5,733
Operating expenses	1,203	2,173	2,011	1,946	2,054	1,991	1,898	1,687	2,147	3,002
EBITDA	**389**	**200**	**546**	**853**	**898**	**947**	**1,112**	**1,529**	**2,144**	**2,732**
Depreciation	301	439	476	505	528	543	508	571	704	913
Interest expense	135	482	658	780	849	914	951	913	896	739
Tax	32	(154)	(77)	(22)	(30)	(29)	(27)	100	283	466
Net surplus (deficit) after tax	**(78)**	**(568)**	**(512)**	**(410)**	**(449)**	**(481)**	**(320)**	**(54)**	**262**	**614**
Comprehensive income	1,040	(873)	1,076	1,649	923	1,625	1,130	1,660	2,663	3,976
Free cash flow	184	(29)	41	(25)	(21)	133	147	559	1,033	1,449
Assets	**32,934**	**48,638**	**51,925**	**54,763**	**56,672**	**58,558**	**60,466**	**68,730**	**90,311**	**122,221**
Debt	**6,439**	**16,526**	**18,407**	**19,567**	**20,415**	**20,504**	**21,033**	**21,261**	**20,689**	**17,374**
Key financial ratios										
Debt/assets	19.6%	34.0%	35.4%	35.7%	36.0%	35.0%	34.8%	30.9%	22.9%	14.2%
EBITDA*/interest (Target >1.5)	*3.89*	*0.89*	*1.03*	*1.27*	*1.24*	*1.20*	*1.29*	*1.69*	*2.42*	*3.70*
Debt/EBITDA*(Target <10)	*12.29*	*36.55*	*25.60*	*19.25*	*19.18*	*18.48*	*17.05*	*13.72*	*9.49*	*6.33*
EBITDA*/revenue (Target >40%)	*32.9%*	*20.1%*	*28.1%*	*36.3%*	*36.1%*	*37.8%*	*41.0%*	*48.2%*	*50.8%*	*47.9%*
ROI (EBITDA*/asset)	*1.59%*	*0.98%*	*1.38%*	*1.86%*	*1.88%*	*1.89%*	*2.04%*	*2.25%*	*2.41%*	*2.25%*
Personnel/revenue (Opex)	*11.0%*	*15.7%*	*13.5%*	*11.1%*	*10.5%*	*10.9%*	*10.8%*	*9.7%*	*9.4%*	*9.5%*
Maintenance/revenue (Opex)	*22.5%*	*26.3%*	*22.9%*	*17.0%*	*16.6%*	*17.2%*	*16.8%*	*17.7%*	*17.0%*	*20.6%*
SACP rating	**NA**	**bbb/bbb-**	**a/a-**	**a/a-**	**a/a-**	**a/a-**	**a+/a**	**a+/a**	**aa/aa-**	**aa/aa-**

** EBITDA adjusted for write-offs, impairment, gain/loss and market/affordable contribution (per S&P credit rating methodology)*

Detailed financial outputs for other selected scenarios in the appendix

* ***Definition***: *'EBITDA' means earnings before interest, tax, depreciation and amortisation*

The proposed Reset Plan and long term investment scenarios show meaningful savings to BEFU. FY29 forecasts shows ongoing progress in reducing operating deficit and a pathway to cash surpluses

Total debt ($m)	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Debt Peak	Peak year
Budget 23 (May 23)	$16,290	$20,119	$22,296	$24,785				
Budget Update 23 (Dec 23)	$16,542	$19,761	$21,472	$23,107				
BEFU* (April 24)	$17,036	$19,388	$20,288	$21,080	$22,130			
S1 -Growth	$16,526	$18,407	$19,567	$20,571	$22,049	$23,080	$35,359	FY2051-52
S2 - Dynamic (HYEFU base)	$16,526	$18,407	$19,567	$20,415	$20,504	$21,033	$21,358	FY2036-37
S5 - Maintain Only	$16,526	$18,407	$19,567	$20,415	$19,745	$19,688	$20,415	FY2026-27

* BEFU only goes to 2027/28, so peak-debt calculations are not possible

Recommended scenario debt in FY26 is down - $2.7bn on May 23 internal Kāinga Ora budget and - $0.7bn from BEFU '24

Net deficit after tax ($m)	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	AVERAGE	Deficit Removed
Budget 23 (May 23)	-$570	-$598	-$707	-$803			**-$670**	
Budget Update 23 (Dec 23)	-$558	-$565	-$607	-$694			**-$606**	
BEFU* (April 24)	-$526	-$523	-$482	-$580	** -$347		**-$492**	
S1 -Growth	-$568	-$512	-$410	-$401	-$472	-$311	**-$457**	FY2035-36
S2 - Dynamic (HYEFU base)	-$568	-$512	-$410	-$449	-$481	-$320	**-$440**	FY2035-36
S5 - Maintain Only	-$568	-$512	-$410	-$242	-$285	-$176	**-$366**	FY2031-32

* BEFU only goes to 2027/28, so does not include a forecast date for returning to surplus

** Note FY28 BEFU* numbers previously provided to HUD included an error of about +$200m associated with the incorrect treatment of LSPs

The deficit trends lower from FY29 with non-cash items and refinancing events adding volatility in some years

Net deficit in FY26 is down 42% on May 23 internal Kāinga Ora budget and down c15% on BEFU '24 (and c23% in FY27)

Free cash flow ($m)	2023/24	2024/25	2025/26	2026/27	2027/28
S2 - Dynamic (HYEFU base)	-$29	$41	-$25	-$21	$133

All scenarios return to sustained positive free cash flow by FY28 (Scenario 2 example only)

More aggressive options to reduce debt quicker and/or return to surplus earlier are outlined in the appendix but are not recommended

Note: All scenarios share common assumptions for FY25 and FY26

****Definition**: 'BEFU' means Budget Economic Fiscal Update*

Scenario 2 – Dynamic: detailed summary of outputs relative to prior Kāinga Ora budgets and Treasury BEFU

Preferred scenario

Total debt ($m)	2023/24	2024/25	2025/26	2026/27	2027/28
Budget-23	$16,290	$20,119	$22,296	$24,785	
Budget Update-23	$16,542	$19,761	$21,472	$23,107	
BEFU	$17,036	$19,388	$20,288	$21,080	$22,130
S2 - Dynamic A	$16,526	$18,407	$19,567	$20,415	$20,504

Net operating deficit (after tax, $m)	2023/24	2024/25	2025/26	2026/27	2027/28
Budget-23	-$570	-$598	-$707	-$803	
Budget Update-23	-$558	-$565	-$607	-$694	
BEFU	-$526	-$523	-$482	-$580	-$347
S2 - Dynamic A	-$568	-$512	-$410	-$449	-$481

FTE as at 30 June	2023/24	2024/25	2025/26	2026/27	2027/28
Budget-23	3,953	3,909	3,803	3,776	
Budget Update-23	3,705	3,643	3,523	3,511	
BEFU*	3,651	3,408	2,992	2,978	2,966
S2 - Dynamic A	3,651	3,448	2,904	2,904	2,904

Depreciation ($m)	2023/24	2024/25	2025/26	2026/27	2027/28
Budget-23	$441	$520	$581	$631	
Budget Update-23	$399	$520	$581	$631	
BEFU	$391	$519	$580	$655	$662
S2 - Dynamic A	$439	$476	$505	$528	$543

Net interest ($m)	2023/24	2024/25	2025/26	2026/27	2027/28
Budget-23	$472	$644	$800	$915	
Budget Update-23	$473	$679	$852	$972	
BEFU	$448	$671	$807	$877	$934
S2 - Dynamic A	$482	$658	$780	$849	$914

Repairs and maintenance ($m)	2023/24	2024/25	2025/26	2026/27	2027/28
Budget-23	$657	$649	$679	$712	
Budget Update-23	$644	$566	$488	$521	
BEFU	$639	$559	$451	$448	$463
S2 - Dynamic A	$623	$585	$476	$490	$506

Personnel ($m)	2023/24	2024/25	2025/26	2026/27	2027/28
Budget-23	$375	$384	$389	$392	
Budget Update-23	$363	$364	$359	$355	
BEFU	$364	$329	$323	$297	$306
S2 - Dynamic A	$372	$345	$311	$311	$319

Write offs and LSP impairments ($m)	2023/24	2024/25	2025/26	2026/27	2027/28
Budget-23	$147	$158	$159	$148	
Budget Update-23	$168	$163	$163	$164	
BEFU	$185	$196	$196	$161	$221
S2 - Dynamic A	$277	$173	$163	$166	$162

Net operating cash flow ($m)	2023/24	2024/25	2025/26	2026/27	2027/28
Budget-23	-$269	-$504	-$315	-$517	
Budget Update-23	-$338	-$114	-$560	-$244	
BEFU	-$346	-$103	-$71	-$58	-$25
S2 - Dynamic A	-$29	$41	-$25	-$21	$133

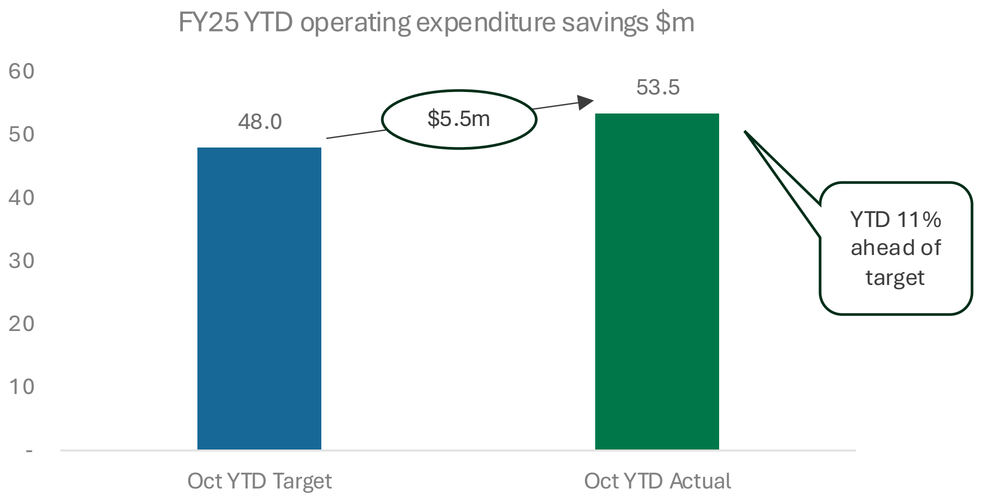
Note: additional savings opportunities have been identified but not yet qualified and are therefore not included in Scenario 2 savings. These are options to de-risk the substantial savings already committed as part of FY25 and if other cost pressures emerge.

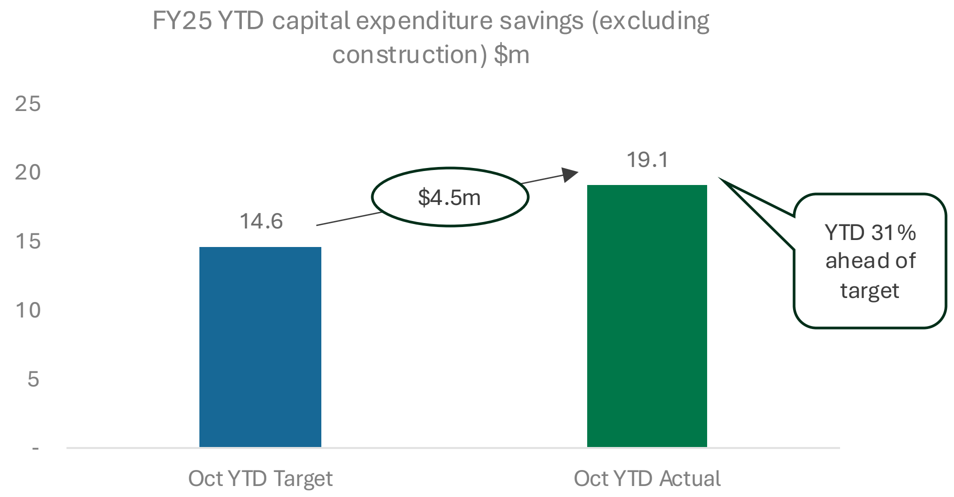
Note: Scenario 2 uses HYEFU as the base for the first 4 years with some post HYEFU updates made in the LSP and KOLP space.

** Budget 2024 full time equivalent (FTE) figures reflected here given FTE is not required for BEFU submission.*

FY25 YTD savings (excluding house building) are tracking ahead of the targets set in Budget 2024, but risks remain

FY25 YTD cash savings progress as at 31 October 2024 ($m)





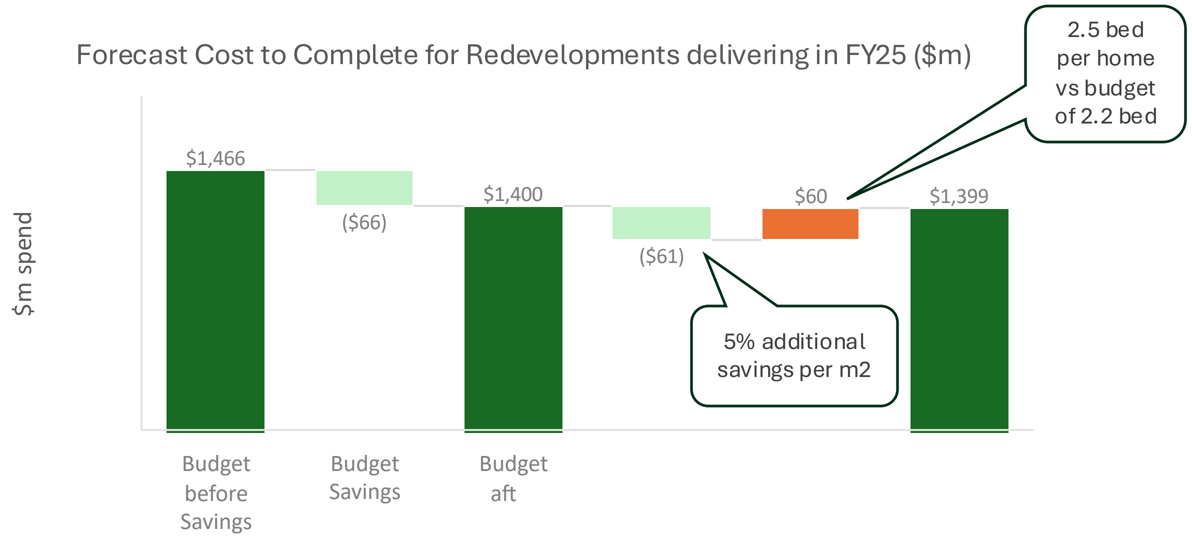
Key points

- Budget 2024 set a series of cost saving targets across asset management, maintenance, people and travel. These include operational and capital components.
- Operating expenditure savings are currently tracking $5.5m (11%) ahead of target and capital expenditure savings are tracking $4.5m (31%) ahead.
- However, some risks remain across the balance of the year:
  - Risk of unbudgeted work-in-progress write-off risks
  - Possible delays in elements of our asset management savings programme – which pose a bigger risk in FY26
  - Potential costs falling into FY25 where payback is in the following financial years (eg any further organisational change)

* ***Definition:*** *'YTD' means year-to-date*

Construction costs for new builds are trending toward market rates by FY26 and are on track to meet savings targets

FY25 redevelopment savings progress as at 31 October 2024



9(2)(j) [redacted] 9(2)(j)

** Includes all building costs but excludes cost of land*

Key points

- The FY25 redevelopment programme is tracking to meet savings targets (based on 90% of the programme under contract):
    - Redevelopment per square meter rates are 5% lower than budget ($61m benefit)
    - Offset by slightly bigger homes being built than anticipated ($60m cost). (Sizes are based on historical averages and can vary from year to year based on the specific project mix)
- We are budgeting further savings as we implement new processes/initiatives and as legacy projects are completed
- 9(2)(j) [redacted]
- In addition - new build acquisitions (not shown) are $40m under budget reflecting softer construction market conditions

9(2)(f)(iv)

[redacted]

The scale of change required to deliver on the Reset Plan is significant and there are risks to full delivery. The Board will manage these risks closely, mitigate early and establish regular reporting to Ministers

Primary risks and mitigation

Primary risks*	Details	Mitigation (not exhaustive)
• **Sufficiently reducing total costs of construction**	• Significant focus on reducing the cost to build and using the best available delivery channel for new stock • Remains a risk that the savings anticipated may not fully eventuate. However, recent construction pricing achieved in our tender processes do give us some early confidence • Our FY25 new-build programme is now 90% contracted and our cost-to-complete forecasts suggest we are on track to meet our savings targets	• Management has identified additional savings opportunities to de-risk the overall savings targets • Close Board monitoring and early mitigation • Continue with existing monthly reporting process to HUD/Treasury and additional reporting from March 25 onwards • New regular report on market build cost review (to be agreed with HUD/Treasury) • Early warning to Ministers • Note: Preferred investment scenarios leave sufficient headroom within debt cap to manage risk
• **Achieving replacement sales volumes and prices over time**	• Replacement sales and prices will be dependent on local demand for the houses offered for sale • Recent market conditions for residential sales have been weak, though there are signs that the market is improving aided by falling interest rates and persistent population growth	
• **Delivering costs savings**	• We are ahead of our combined Budget 2024 cost savings target year-to-date, however significant savings are planned from our asset maintenance programme beginning in the second half of FY25 • External assurance over this programme has validated the opportunity but also signalled that the next phase of this savings programme is running behind targeted timelines	
• **Work-in-progress write offs associated with paused projects**	• There are risks associated with write-offs on paused projects which may affect our FY25 operating results • While many of these projects will proceed as part of the FY26 programme some projects are unlikely to go ahead and others will involve some write down of WIP where the level of investment is not commensurate with the status of the project • Once the Board has a clear view of the size and scale of these risks, we will provide you with a detailed report on implications – this is expected in March 2025	

Additional detail on reporting and responses to LOE in appendix

** Note: focuses on primary risks only. Typical risks involved in executing an organisational change programme remain and will be managed closely by management and Board*

Next steps

- The Board looks forward to discussing the Reset Plan with Ministers and receiving their guidance on the plan's objectives and initiatives

- The Board and Management will continue to press ahead with the Reset Plan initiatives within its mandate/control as well as the work needed to deliver against the Budget 2024 financial commitments

- The Board will regularly report on progress to Ministers and the monitoring agencies

Appendix

Kāinga Ora
Homes and Communities

The Reset Plan addresses the requirements of the Letter of Expectations as set by Ministers of Housing and Finance (1/4)

LOE Priority 1: Financial Sustainability

Objective	Status in Reset Plan		Reporting
• **Eliminate losses and manage within debt limits**	• Considered within financial scenarios. Preferred scenario stays within current debt limits and is cashflow neutral in FY28. Return to operating surplus forecast in FY36	✓	• Monthly and quarterly reports
• **Investment scenarios that describe trade-offs on delivery, asset renewal (incl retrofit), divestment with no net new growth in social housing places**	• Range of investment scenarios modelled; three described in more detail in appendix with several sub-options • Preferred scenario involves active asset recycling. Planning and policy work underway to confirm approach and locations for divestment, including financial outcomes and renewal needs • Assessment of vacant land and underutilised land underway	✓	• Report on wider housing portfolio management including replacement sales, locations, typology mix, vacant land in March 2025
• **Greater visibility of total capitalised costs**	• Full cost stack comparing Kāinga Ora redevelopment with market acquisitions. Shows approximately a 12% premium (for typical typology, ex land); target to meet market costs with progress regularly reported to HUD	✓	• Semi-annual market build cost review • Quarterly reporting on cost to complete of annual capital programmes, including FY26 delivery programme
• **Review of treasury and liquidity management approach**	• Review completed and incorporated into half yearly update reporting	✓	• N/A

The Reset Plan addresses the requirements of the Letter of Expectations as set by Ministers of Housing and Finance (2/4)

LOE Priorities
1: Financial Sustainability &
3: Continued Delivery

Objective	Status in Reset Plan	Reporting
• **Crown funded programmes and statutory obligation**	• Core/non-core proposals developed (noting HUD will lead any policy and legislative change that impact Crown funded programmes and statutory obligations) • Scenarios modelled are not reliant on these changes, but recommendations made to formalise a reduced mandate	✓ • SPE/SOI changes through annual processes
• **Delivery on Budget 24 savings through to '27**	• FY25 budget savings tracking ahead of target • Assurance work across asset management and maintenance savings has been commissioned • Review of paused projects and write-off risks underway	✓ • Monthly reporting to cover savings progress • Formal briefing of Reset Plan savings in March 2025 • Report on paused projects and write-off risks in March 2025
• **Meet social housing targets at national and local level**	• Public Housing Plan deliverables across next two financial years confirmed by Ministers, along with renewal and retrofit numbers • Community engagement plan part of Reset Plan	✓ • Monthly and quarterly reports

The Reset Plan addresses the requirements of the Letter of Expectations as set by Ministers of Housing and Finance (3/4)

LOE Priority 3: Continued Delivery

Objective	Status in Reset Plan	Reporting
• **Reset on Kāinga Ora's LSPs**	• Latest Ministerial direction integrated into Reset Plan scenarios 9(2)(f)(iv) [redacted]	✓ • HUD leading further Ministerial briefing on LSPs due end of year (with support from Kāinga Ora and Treasury) • Cost to complete estimates through quarterly reporting
• **Kāinga Ora Land Programme**	• 9(2)(f)(iv) [redacted] • Scenarios assume any existing projects are cost neutral	✓ • Formal briefing on KOLP projects due to Ministers shortly
• **Tenant management**	• Actions to strengthen management of disruptive tenants, rental arrears and reducing volume of vacant homes underway and integrated into the Reset Plan	✓ • Monthly and quarterly reports

The Reset Plan addresses the requirements of the Letter of Expectations as set by Ministers of Housing and Finance (4/4)

LOE Priority: General

Objective	Status in Reset Plan		Reporting
Infrastructure Acceleration Fund	Considered in core/non-core proposal	✓	N/A
Tamaki Regeneration Programme	House construction programme considered in core/non-core proposal	✓	N/A
Significant investments/ delegations	Change to significant investment delegation as per Cabinet Office circular CO(23) 9 already embedded in Kāinga Ora Investment Management Framework	✓	As required, in line with CO(23) 9
New contract with HUD	Refreshed Services Agreement included in initiative 3.5	✓	TBC - awaiting HUD to initiate this work
New funding arrangements with Treasury	New financing agreement with Treasury underway and confirmed as part of the Reset Plan	✓	N/A
Regular reporting	Agreed reporting schedule with HUD/Treasury	✓	Underway through monthly and quarterly reports

Key economic assumptions used in financial modelling

Overview of key economic assumptions

Economic Assumptions		
Assumption	Budget period (4 yrs)	LTIP period
CPI	RBNZ forecasts	Treasury projections: 2% for inflation
Average hourly wage	RBNZ forecasts	Treasury projections: 3% for wage growth
Rent price	Market indicators	Steady state: CPI + 1%
Redevelopment, Retrofit, Urban	Materials: forecast CPI + 1% Labour: Avg hourly wage forecast	Steady state: CPI + 1%
Acquire New	Build cost: as above Land cost: House price forecast	Steady state: CPI + 1%
Maintenance cost	Retrofit with 1-year lag	Steady state: CPI + 1%
House prices	REINZ House Price Index forecast	Steady state: CPI + 1%
Council rates	Council Long Term Plans	Steady state: CPI + 1%
Interest rates	Forward rates (market)	Same as the last year of Budget period

Sensitivities

Scenario analysis – key assumptions

1. In the four-year Budget period, economic assumptions are driven off RBNZ and Treasury forecasts. These forecasts build off current conditions and typically reach steady state by the end of the Budget period, driven by the monetary policy response.
2. The Budget 2024 paper presented to the Board provided illustrative scenarios of inflation deviating from expectations to assess the impact on financial performance.
3. Beyond the Budget period, steady state economic assumptions are assumed, to avoid instances of unrealistic outcomes (eg, ever-increasing house price to income ratios).

Scenario summaries and change versus Scenario 2 - Dynamic (reference scenario)

Scenario 1 – Grow for next 30 years summary and comparison with Scenario 2

Scenario analysis – S1 outputs

	Scenario 1 - Grow: Maintain market share										Change (Scenario 1 - Scenario 2)							
	FY20	FY24	FY25	FY26	FY27	FY28	FY29	FY34	FY44	FY54	FY25	FY26	FY27	FY28	FY29	FY34	FY44	FY54
	Jun-20	Jun-24	1	2	3	4	5	+10y	+20y	+30y	1	2	3	4	5	+10y	+20y	+30y
Homes																		
New homes	1,841	5,002	3,437	2,050	2,297	2,423	1,945	1,553	1,429	50	-	-	833	833	332	622	498	-
Demolitions	702	1,164	731	691	687	992	275	182	182	50	-	-	-	300	(300)	38	-	-
Sales	71	27	300	939	685	598	937	750	750	-	-	-	(92)	(300)	(100)	(38)	-	-
Net Lease	(81)	(206)	(151)	(275)	(75)	(75)	-	-	-	-	-	-	-	-	-	-	-	-
Net growth	**987**	**3,605**	**2,255**	**145**	**849**	**758**	**732**	**622**	**498**	**-**	**-**	**-**	**924**	**833**	**732**	**622**	**498**	**-**
Managed stock	**66,253**	**75,640**	**77,895**	**78,040**	**78,890**	**79,648**	**80,380**	**83,932**	**89,386**	**94,044**	**-**	**-**	**924**	**1,757**	**2,490**	**6,041**	**11,495**	**16,153**
Public Housing	63,811	70,643	72,875	73,020	73,870	74,628	75,360	78,912	84,366	89,024	-	-	924	1,757	2,490	6,041	11,495	16,153
Supported Housing	2,442	4,997	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	-	-	-	-	-	-	-	-
Retrofit	**133**	**898**	**861**	**495**	**400**	**400**	**400**	**400**	**245**	**974**	**-**	**-**	**-**	**-**	**-**	**-**	**40**	**-**
Total construction events	**1,974**	**5,900**	**4,298**	**2,545**	**2,697**	**2,823**	**2,344**	**1,953**	**1,674**	**1,024**	**-**	**-**	**833**	**833**	**332**	**622**	**538**	**-**
Effective age of homes	**44**	**41**	**38**	**38**	**37**	**37**	**36**	**35**	**34**	**33**	**-**	**-**	**(0)**	**(1)**	**(1)**	**- 2**	**- 3**	**- 3**
FTE count	**1,989**	**3,651**	**3,448**	**2,904**	**2,891**	**2,891**	**2,891**	**2,962**	**2,930**	**3,012**	**-**	**-**	**- 13**	**- 13**	**-**	**211**	**373**	**465**
$ Million																		
Revenue	1,592	2,373	2,557	2,799	2,980	3,018	3,133	3,625	5,401	7,882	-	-	27	79	123	409	1,110	2,149
Operating expenses	1,203	2,173	2,011	1,946	2,074	2,020	1,869	1,776	2,375	3,446	-	-	20	29	(29)	89	228	444
EBITDA	**389**	**200**	**546**	**853**	**906**	**998**	**1,264**	**1,849**	**3,026**	**4,437**	**-**	**-**	**7**	**50**	**153**	**320**	**882**	**1,705**
Depreciation	301	439	476	505	489	515	538	637	853	1,171	-	-	(39)	(28)	30	66	149	258
Interest expense	135	482	658	780	846	981	1,033	1,144	1,420	1,484	-	-	(3)	67	82	231	525	746
Tax	32	(154)	(77)	(22)	(28)	(26)	4	124	378	725	-	-	1	3	31	24	95	258
Net surplus (deficit) after tax	**(78)**	**(568)**	**(512)**	**(410)**	**(401)**	**(472)**	**(311)**	**(56)**	**375**	**1,056**	**-**	**-**	**48**	**8**	**9**	**(1)**	**113**	**443**
Comprehensive income	1,040	(873)	1,076	1,649	1,090	1,800	1,204	1,830	3,199	5,223	-	-	167	175	74	170	536	1,247
Free cash flow	184	(29)	41	(25)	205	328	236	615	1,302	2,049	-	-	226	195	89	56	269	601
Assets	**32,934**	**48,638**	**51,925**	**54,763**	**57,232**	**60,853**	**63,421**	**76,296**	**107,757**	**153,846**	**-**	**-**	**561**	**2,295**	**2,955**	**7,566**	**17,446**	**31,625**
Debt	**6,439**	**16,526**	**18,407**	**19,567**	**20,571**	**22,049**	**23,080**	**27,269**	**32,963**	**34,414**	**-**	**-**	**156**	**1,545**	**2,046**	**6,008**	**12,274**	**17,040**
Key financial ratios																		
Debt/assets	19.6%	34.0%	35.4%	35.7%	35.9%	36.2%	36.4%	35.7%	30.6%	22.4%	*0.0%*	*0.0%*	*-0.1%*	*1.2%*	*1.6%*	*4.8%*	*7.7%*	*8.2%*
EBITDA*/interest (Target >1.5)	*3.89*	*0.89*	*1.03*	*1.27*	*1.25*	*1.25*	*1.34*	*1.63*	*2.15*	*2.99*	*0.00*	*0.00*	*0.02*	*0.05*	*0.05*	*-0.06*	*-0.27*	*-0.71*
Debt/EBITDA*(Target <10)	*12.29*	*36.55*	*25.60*	*19.25*	*19.00*	*17.96*	*16.62*	*14.54*	*10.77*	*7.73*	*0.00*	*0.00*	*-0.18*	*-0.52*	*-0.43*	*0.82*	*1.27*	*1.40*
EBITDA*/revenue (Target >40%)	*32.9%*	*20.1%*	*28.1%*	*36.3%*	*36.3%*	*40.7%*	*44.3%*	*51.7%*	*56.7%*	*56.5%*	*0.0%*	*0.0%*	*0.3%*	*2.9%*	*3.3%*	*3.5%*	*5.9%*	*8.6%*
ROI (EBITDA*/asset)	*1.59%*	*0.98%*	*1.38%*	*1.86%*	*1.89%*	*2.02%*	*2.19%*	*2.46%*	*2.84%*	*2.89%*	*0.0%*	*0.0%*	*0.0%*	*0.1%*	*0.1%*	*0.2%*	*0.4%*	*0.6%*
Personnel/revenue (Opex)	*11.0%*	*15.7%*	*13.5%*	*11.1%*	*10.4%*	*10.6%*	*8.9%*	*9.2%*	*8.5%*	*8.1%*	*0.0%*	*0.0%*	*-0.1%*	*-0.3%*	*-2.0%*	*-0.5%*	*-0.9%*	*-1.4%*
Maintenance/revenue (Opex)	*22.5%*	*26.3%*	*22.9%*	*17.0%*	*17.0%*	*16.9%*	*16.6%*	*16.2%*	*14.7%*	*16.8%*	*0.0%*	*0.0%*	*0.4%*	*-0.3%*	*-0.2%*	*-1.5%*	*-2.3%*	*-3.8%*
SACP rating	NA	bbb/bbb-	a/a-	a/a-	a/a-	a/a-	a+/a	a+/a	aa/aa-	aa/aa-	NA	NA	NA	NA	NA	NA	NA	NA

** EBITDA adjusted for write-offs, impairment, gain/loss and market/affordable contribution (per S&P credit rating methodology)*

Scenario summaries and change versus Scenario 2 - Dynamic (reference scenario)

Scenario 5 – Static B (maintain only) summary and comparison with Scenario 2

Scenario analysis – S5 outputs

	Scenario 5 - Static B: Maintain only (no sales)										Change (Scenario 5 - Scenario 2)							
	FY20	FY24	FY25	FY26	FY27	FY28	FY29	FY34	FY44	FY54	FY25	FY26	FY27	FY28	FY29	FY34	FY44	FY54
	Jun-20	Jun-24	1	2	3	4	5	+10y	+20y	+30y	1	2	3	4	5	+10y	+20y	+30y
Homes																		
New homes	1,841	5,002	3,437	2,050	411	510	454	248	50	50	-	-	(1,053)	(1,080)	(1,158)	(684)	(882)	-
Demolitions	702	1,164	731	691	330	432	191	50	50	50	-	-	(357)	(260)	(384)	(94)	(132)	-
Sales	71	27	300	939	6	3	263	198	-	-	-	-	(771)	(895)	(774)	(590)	(750)	-
Net Lease	(81)	(206)	(151)	(275)	(75)	(75)	-	-	-	-	-	-	-	-	-	-	-	-
Net growth	**987**	**3,605**	**2,255**	**145**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	75	75	0	(0)	(0)	-
Managed stock	**66,253**	**75,640**	**77,895**	**78,040**	**78,040**	**78,040**	**78,040**	**78,040**	**78,040**	**78,040**	-	-	75	150	150	150	150	150
Public Housing	63,811	70,643	72,875	73,020	73,020	73,020	73,020	73,020	73,020	73,020	-	-	75	150	150	150	150	150
Supported Housing	2,442	4,997	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	-	-	-	-	-	-	-	-
Retrofit	**133**	**898**	**861**	**495**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	(400)	(400)	(400)	(400)	(205)	(974)
Total construction events	**1,974**	**5,900**	**4,298**	**2,545**	**411**	**510**	**454**	**248**	**50**	**50**	**-**	**-**	**(1,453)**	**(1,480)**	**(1,558)**	**(1,083)**	**(1,087)**	**(974)**
Effective age of homes	**44**	**41**	**38**	**38**	**39**	**39**	**40**	**44**	**53**	**63**	**-**	**-**	**1**	**2**	**3**	**7**	**16**	**26**
FTE count	**1,989**	**3,651**	**3,448**	**2,904**	**2,891**	**2,891**	**2,891**	**2,673**	**2,461**	**2,461**	**-**	**-**	**(13)**	**(13)**	**-**	**(78)**	**(96)**	**(86)**
$ Million																		
Revenue	1,592	2,373	2,557	2,799	3,002	2,953	3,009	3,176	4,153	5,435	-	-	50	14	(1)	(40)	(138)	(298)
Operating expenses	1,203	2,173	2,011	1,946	1,917	1,856	1,758	1,689	2,264	3,178	-	-	(138)	(135)	(140)	2	117	176
EBITDA	**389**	**200**	**546**	**853**	**1,085**	**1,096**	**1,251**	**1,487**	**1,889**	**2,257**	**-**	**-**	**187**	**149**	**139**	**(42)**	**(256)**	**(475)**
Depreciation	301	439	476	505	483	491	497	509	561	669	-	-	(45)	(51)	(11)	(62)	(143)	(244)
Interest expense	135	482	658	780	843	895	903	776	537	175	-	-	(7)	(19)	(48)	(137)	(359)	(564)
Tax	32	(154)	(77)	(22)	2	(6)	27	115	282	462	-	-	32	23	54	15	(0)	(4)
Net surplus (deficit) after tax	**(78)**	**(568)**	**(512)**	**(410)**	**(242)**	**(285)**	**(176)**	**87**	**508**	**950**	**-**	**-**	**207**	**196**	**144**	**141**	**246**	**337**
Comprehensive income	1,040	(873)	1,076	1,649	1,233	1,950	1,293	1,825	2,978	4,483	-	-	310	325	163	165	316	507
Free cash flow	184	(29)	41	(25)	73	350	218	625	1,093	1,569	-	-	93	217	71	66	59	120
Assets	**32,934**	**48,638**	**51,925**	**54,763**	**56,967**	**58,503**	**59,957**	**66,656**	**85,185**	**116,720**	**-**	**-**	**295**	**(55)**	**(509)**	**(2,074)**	**(5,127)**	**(5,501)**
Debt	**6,439**	**16,526**	**18,407**	**19,567**	**20,415**	**19,745**	**19,688**	**17,711**	**12,284**	**5,356**	**-**	**-**	**-**	**(760)**	**(1,345)**	**(3,549)**	**(8,405)**	**(12,017)**
Key financial ratios																		
Debt/assets	19.6%	34.0%	35.4%	35.7%	35.8%	33.8%	32.8%	26.6%	14.4%	4.6%	*0.0%*	*0.0%*	*-0.2%*	*-1.3%*	*-1.9%*	*-4.4%*	*-8.5%*	*-9.6%*
EBITDA*/interest (Target >1.5)	*3.89*	*0.89*	*1.03*	*1.27*	*1.40*	*1.33*	*1.44*	*1.92*	*3.51*	*9.14*	*0.00*	*0.00*	*0.16*	*0.13*	*0.15*	*0.23*	*1.09*	*5.44*
Debt/EBITDA*(Target <10)	*12.29*	*36.55*	*25.60*	*19.25*	*16.98*	*15.97*	*15.10*	*11.86*	*6.47*	*2.36*	*0.00*	*0.00*	*-2.20*	*-2.51*	*-1.95*	*-1.86*	*-3.02*	*-3.97*
EBITDA*/revenue (Target >40%)	*32.9%*	*20.1%*	*28.1%*	*36.3%*	*40.1%*	*41.9%*	*43.3%*	*47.0%*	*45.7%*	*41.8%*	*0.0%*	*0.0%*	*4.0%*	*4.1%*	*2.3%*	*-1.2%*	*-5.1%*	*-6.1%*
ROI (EBITDA*/asset)	*1.59%*	*0.98%*	*1.38%*	*1.86%*	*2.11%*	*2.11%*	*2.17%*	*2.24%*	*2.23%*	*1.94%*	*0.0%*	*0.0%*	*0.2%*	*0.2%*	*0.1%*	*0.0%*	*-0.2%*	*-0.3%*
Personnel/revenue (Opex)	*11.0%*	*15.7%*	*13.5%*	*11.1%*	*8.9%*	*9.2%*	*9.3%*	*9.7%*	*9.5%*	*9.8%*	*0.0%*	*0.0%*	*-1.7%*	*-1.6%*	*-1.6%*	*0.0%*	*0.1%*	*0.3%*
Maintenance/revenue (Opex)	*22.5%*	*26.3%*	*22.9%*	*17.0%*	*17.0%*	*17.7%*	*16.8%*	*18.9%*	*21.7%*	*25.1%*	*0.0%*	*0.0%*	*0.4%*	*0.5%*	*0.0%*	*1.2%*	*4.7%*	*4.5%*
SACP rating	**NA**	**bbb/bbb-**	**a/a-**	**a/a-**	**a+/a**	**a+/a**	**a+/a**	**a+/a**	**aa/aa-**	**aa/aa-**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**

** EBITDA adjusted for write-offs, impairment, gain/loss and market/affordable contribution (per S&P credit rating methodology)*

Scenario 1 – Grow to maintain market share: summary of housing portfolio moves and changes

Scenario analysis – S1 outputs

Scenario 1: Summary of Kāinga Ora housing stock

	Planning Intentions		LTIP Forecast										
National	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	10 Year	30 year	60 Year
Redevelopments	1,966	1,242	978	1,011	438	453	352	352	364	364	7,519	20,304	21,804
Acquisition	1,471	800	958	958	1,102	1,102	1,102	1,102	1,102	992	10,690	27,830	27,830
LSP Builds	-	8	361	454	404	219	210	210	198	198	2,262	2,460	2,460
Demolitions	- 589	- 340	- 357	- 560	- 84	- 86	- 68	- 79	- 132	- 132	- 2,426	- 5,319	- 5,319
LSP Demolitions	- 92	- 301	- 280	- 382	- 141	- 82	- 64	- 53	-	-	- 1,395	- 1,002	- 1,002
Demolitions Fire	- 50	- 50	- 50	- 50	- 50	- 50	- 50	- 50	- 50	- 50	- 500	- 1,500	- 3,000
General Sales	- 300	- 939	- 685	- 598	- 937	- 824	- 750	- 750	- 750	- 750	- 7,283	- 21,532	- 21,532
Lease Movement	- 151	- 275	- 75	- 75	-	-	-	-	-	-	- 576	- 576	- 576
Net Movement	**2,255**	**145**	**849**	**758**	**732**	**732**	**732**	**732**	**732**	**622**	**8,292**	**20,666**	**20,666**
Public Homes	72,875	73,020	73,870	74,628	75,360	76,092	76,825	77,557	78,290	78,912	78,912	89,024	89,024
Supported homes	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020
Total Homes	**77,895**	**78,040**	**78,890**	**79,648**	**80,380**	**81,112**	**81,845**	**82,577**	**83,310**	**83,932**	**83,932**	**94,044**	**94,044**
Retrofit	861	495	400	400	400	400	400	400	400	400	4,554	10,187	39,402
Constructs (incl retrofit)	4,298	2,545	2,697	2,823	2,344	2,174	2,064	2,064	2,064	1,953	25,025	58,518	89,233
Renewed	1,892	2,125	1,772	1,990	1,612	1,442	1,331	1,331	1,331	1,331	16,157	39,539	70,346
Owned Addtions	3,437	2,050	2,297	2,423	1,945	1,775	1,664	1,664	1,664	1,553	20,471	48,332	49,832
Owned Disposals	- 1,031	- 1,630	- 1,372	- 1,590	- 1,212	- 1,042	- 932	- 932	- 932	- 932	- 11,603	- 29,352	- 30,852
Owned Movement	2,406	420	925	833	732	732	732	732	732	622	8,868	17,223	17,223

* ***Definition:*** *'LTIP' means Long Term Investment Plan*

Preferred Scenario 2 – Dynamic: summary of housing portfolio moves and changes

Scenario analysis – Preferred scenario 2

Scenario 2: Summary of Kāinga Ora housing stock

	Planning Intentions		Budget		LTIP Forecast								
National	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	10 Year	30 year	60 Year
Redevelopments	1,967	1,242	903	936	838	653	352	352	364	364	7,970	18,493	19,993
Acquisition	1,470	800	200	200	370	370	370	370	370	370	4,889	11,917	11,917
LSP Builds (indicative)	0	8	361	454	404	219	210	210	198	198	2,262	2,460	2,460
Demolitions	-589	-340	-357	-260	-384	-86	-68	-79	-94	-94	-2,350	-4,926	-4,926
LSP Demolitions	-92	-301	-280	-382	-141	-82	-64	-53	0	0	-1,395	-1,395	-1,395
Demolitions Fire	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-500	-1,500	-3,000
General Sales	-300	-939	-777	-898	-1,037	-1,024	-750	-750	-788	-788	-8,050	-22,223	-22,223
Lease Movement	-151	-275	-75	-75	0	0	0	0	0	0	-576	-576	-576
Net Movement	**2,255**	**145**	**-75**	**-75**	**-0**	**-0**	**0**	**0**	**0**	**0**	**2,250**	**2,250**	**2,250**
Public Homes	72,875	73,020	72,945	72,870	72,870	72,870	72,870	72,870	72,870	72,870	72,870	72,870	72,870
Supported homes	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020
Total Homes	**77,895**	**78,040**	**77,965**	**77,890**	**77,890**	**77,890**	**77,890**	**77,890**	**77,890**	**77,890**	**77,890**	**77,890**	**77,890**
Retrofit	861	495	400	400	400	400	400	400	400	400	4,554	9,587	38,802
Constructs (incl retrofit)	4,298	2,545	1,864	1,990	2,012	1,642	1,331	1,331	1,331	1,331	19,675	42,457	73,172
Renewed	1,892	2,125	1,864	1,990	2,012	1,642	1,331	1,331	1,331	1,331	16,849	39,631	70,346
Owned Additions	3,437	2,050	1,464	1,590	1,612	1,242	932	932	932	932	15,121	32,870	34,370
Owned Disposals	- 1,031	- 1,630	- 1,464	- 1,590	- 1,612	- 1,242	- 932	- 932	- 932	- 932	- 12,295	- 30,044	- 31,544
Owned Movement	2,406	420	-	-	- 0	- 0	0	0	0	0	2,826	2,826	2,826

Scenario 5 – Maintain: summary of housing portfolio moves and changes

Scenario analysis – S5 outputs

Scenario 5: Summary of Kāinga Ora housing stock

	Planning Intentions		LTIP Forecast										
National	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	10 Year	30 year	60 Year
Redevelopments	1,966	1,242	50	50	50	50	50	50	50	50	5,348	6,348	7,848
Acquisition	1,471	800	-	-	-	-	-	-	-	-	2,670	2,670	2,670
LSP Builds	-	8	361	460	404	219	210	210	198	198	2,262	2,460	2,460
Demolitions	- 589	- 340	-	-	-	-	-	-	-	-	- 1,546	- 1,546	- 1,546
LSP Demolitions	- 92	- 301	- 280	- 382	- 141	- 82	- 64	- 53	-	-	- 1,395	- 1,395	- 1,395
Demolitions Fire	- 50	- 50	- 50	- 50	- 50	- 50	- 50	- 50	- 50	- 50	- 500	- 1,500	- 3,000
General Sales	- 300	- 939	- 6	- 3	- 263	- 137	- 146	- 157	- 198	- 198	- 4,013	- 4,211	- 4,211
Lease Movement	- 151	- 275	- 75	- 75	-	-	-	-	-	-	- 576	- 576	- 576
Net Movement	**2,255**	**145**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,250**	**2,250**	**2,250**
Public Homes	72,875	73,020	73,020	73,020	73,020	73,020	73,020	73,020	73,020	73,020	73,020	73,020	73,020
Supported homes	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020
Total Homes	**77,895**	**78,040**	**78,040**	**78,040**	**78,040**	**78,040**	**78,040**	**78,040**	**78,040**	**78,040**	**78,040**	**78,040**	**78,040**
Retrofit	861	495	-	-	-	-	-	-	-	-	1,356	1,356	1,356
Constructs (incl retrofit)	4,298	2,545	411	510	454	269	260	260	248	248	9,503	10,701	12,201
Renewed	1,892	2,125	336	435	454	269	260	260	248	248	6,527	7,725	9,225
Owned Addtions	3,437	2,050	411	510	454	269	260	260	248	248	8,147	9,345	10,845
Owned Disposals	- 1,031	- 1,630	- 336	- 435	- 454	- 269	- 260	- 260	- 248	- 248	- 5,171	- 6,369	- 7,869
Owned Movement	2,406	420	75	75	-	-	-	-	-	-	2,976	3,126	3,126

Alternative scenarios: We also prepared two further scenarios (Scenario 3 and Scenario 4) to test

Scenario analysis – alternatives

We have fully modelled two additional scenarios as follows:

- **Scenario 3 – Dynamic B** - involves active recycling and renewal of our portfolio at 1,100 homes per year over 60 years (but no growth in housing).
- **Scenario 4 – Static A** - involves renewal of 1,100 homes per year for 60 years but through site-by-site retrofit only **ie no replacement sales, or new homes constructed**

These scenarios involve relatively modest changes in key financial metrics and result in poorer outcomes in terms of asset quality and customer experience:

	Scenario 3 vs Scenario 2	Scenario 4 vs Scenario 2
Debt in FY29	Lower by ~$1b	Lower by ~$1b, materially worse over time
Deficit in FY29	$85m better, very similar over medium to long term. Changes are largely non-cash (fewer write-offs, decreased depreciation under Scenario 3)	$52m better, but materially worse over time
Surplus reached	Same year	+1 year
Age of assets	+2 years by 2029	+2 years by 2029
Other outcomes	Does not address existing renewal backlog with 3,000 fewer homes renewed by FY30 - meaning older homes for longer and poorer tenant outcomes	Older homes for longer, underutilised land, homes mismatched to needs

Scenarios 1 and 5 represent ‘bookends’ from a delivery perspective with a range of choices within these relating to growth, renewal approach and renewal speed. The Board believes Scenario 2 – Dynamic strikes the best balance of financial and performance outcomes

Alternative scenarios: As requested we have also tested some alternative growth scenarios – with two potential paths to achieve growth

Scenario analysis – alternatives

1. Option 1: Increase market acquisitions and/or redevelopments:

- **Financial impact** – purchase land and house packages off the market at market rates (currently $890k per unit*) leading to increased debt plus operating cost impacts associated with interest. Operating impacts will depend on funding assumptions (eg whether operating supplement is payable). Market rate for houses will vary depending upon location and size requirements
- Implies approximately $89m additional debt per 100 homes
- Alternative option of growth through redevelopment of existing assets will require longer lead-in time. Total cash cost will be lower but when including land costs will be similar to market rates

2. Option 2: Pull back on replacement sales (and by extension renewals) to enable net growth:

- **Financial impact** – lower revenue due to fewer replacement sales being made ($550k per sale on average, but highly dependent on location and condition), increasing debt by approximately $55m per 100 homes
- Deferring renewals means higher maintenance costs for longer
- If decisions on this option are made late, then:
  - limited flexibility as to where growth occurs - while Kāinga Ora can pivot to retain assets, new developments need long-lead times and would have been planned based on renewal needs, not social housing growth needs;
  - asset management would be compromised as asset decisions are quite different for homes to be demolished or divested compared with homes intended for retention

Various scaled scenarios showing alternative growth rates can be prepared on request

** Includes all building costs and land (assumed at approximately $290k per unit)*

Alternative scenarios: Treasury requested a simple estimate to demonstrate what it would take to reduce the operating deficit to breakeven by FY28. While possible in theory, it would have significant consequences

Scenario analysis – alternatives

Worked example to provide a sense of scale of the change needed	FY27/28 Operating ($m)	FY27/28 Capital
Target reduction circa	**~$450**	
Reduce a further 500 FTE/Yr - targeting ~1,500 FTE total by FY28 (50% cut overall)	(150)	
Significant reduction in maintenance activity		
• 40% reduction in responsive maintenance activity	(104)	(23)
• 40% reduction in planned/other maintenance activity	(50)	(61)
• Exit retrofit component of renewal programme	(34)	(106)
30% reduction contracted services/ICT*, and	(47)	
Depreciation (cumulative**) from reduced property capital spend	(15)	
Interest reduction estimate (cumulative)	(50)	
	(450)	

- Any material reductions in portfolio size would have revenue and potential write-down impacts offsetting direct cost reductions. Illustrative scenario assumes revenue/stock numbers are fixed to show the scale of operating cost reduction required
- This means realistically there are two levers - maintenance and people. Changes would need to be dramatic, particularly in the context of an already aggressive savings programme
- Kāinga Ora would need to withdraw all tenant support and most community engagement, leading to major problems with tenant behaviour and loss of social licence
- This will undermine service delivery as the deferral of necessary maintenance will worsen tenant outcomes, negatively impact the balance sheet and adding material cost over time

* ***Definition**: 'ICT' means Information and Communication Technology*

***Cumulative: assumes reductions occur in earlier years with a cumulative impact by FY28*

9(2)(f)(iv)

[redacted]

9(2)(g)(i)

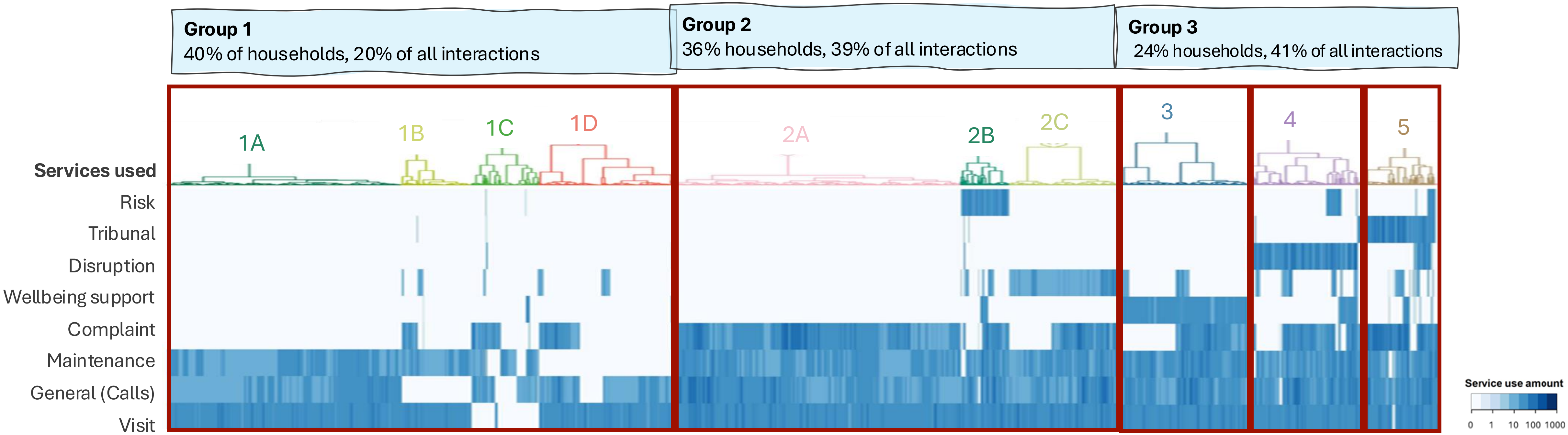
[redacted]

** Note: This slide is presented for information rather than as a proposal or recommendation*

The needs of many Kāinga Ora tenants are becoming more complex – driving increased operational support and cost. Analysis of tenant service interactions illustrates how new segmentation approaches could help Kāinga Ora develop new operational models to improve efficiency

Output from tenant interaction analysis

Kāinga Ora tenant service interaction mapping



Lower number of visits, calls and maintenance interactions required. More closely aligned to private market tenant management needs

Higher volume and complexity of services required including debt, disruption, Tribunal and complaint factors